A/53/5/Add.10

United Nations

United Nations Office for Project Services

Financial report and audited financial statements

for the biennium ended 31 December 1997 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-third session
Supplement No. 5J (A/53/5/Add.10)

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United Nations • New York, 1998

Note

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

[Original: English]
[29 July 1998]

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Letters of transmittal and certification

30 June 1998

Sir,

Pursuant to financial regulation 11.3, we have the honour to submit the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 1997, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

- The Management is responsible for the integrity and objectivity of the financial information included in this report;
- The financial statements have been prepared in accordance with the United Nations System Accounting Standards and include certain amounts that are based on Management's best estimates and judgements;
- Established accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, and the policies and procedures are implemented by qualified personnel with an appropriate segregation of duties. The UNOPS internal auditors continually review the accounting and control systems;
- The Management provided the United Nations Board of Auditors and the Office's internal auditors with full and free access to all accounting and financial records;
- The recommendations of the United Nations Board of Auditors and United Nations Office for Project Services internal auditors are reviewed by the Management. Control procedures have been implemented or revised, as appropriate, in response to these recommendations.
- We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

Accept, Sir, the assurances of our highest consideration.

(*Signed*) Bisrat **Aklilu**
Office-in-charge
United Nations Office for Project Services

(*Signed*) Martyn **Evans**
Assistant Director
Division for Finance, Control and Administration

The Chairman of the Board of Auditors
United Nations
New York

15 July 1998

Sir,

I have the honour to transmit to you the financial statements of the United Nations Office for Project Services for the biennium 1996–1997 ended 31 December 1997, which were submitted by the Office-in-Charge. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

Accept, Sir, the assurances of my highest consideration.

(*Signed*) Vijay Krishna **Shunglu**
Comptroller and Auditor General
of India
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium 1996–1997 ended 31 December 1997

1. The Executive Director of the United Nations Office for Project Services (UNOPS) has the honour to submit his financial report for the first complete biennium of the operations of UNOPS as an independent entity. The present report, together with the audited financial statements for the biennium ended 31 December 1997 also includes the report of the Board of Auditors. This submission is made in conformity with the United Nations Office for Project Services Financial Regulations and Financial Rules of the United Nations Development Programme (UNDP), which are applicable to the Office *mutatis mutandis*. The financial statements consist of three statements and two schedules, accompanied by notes which are an integral part of the financial statements, and cover all funds for which the Executive Director is responsible.

Accounting practices and policies

Financial regulations and rules

2. The United Nations Office for Project Services has commenced a complete review of its Financial Regulations and Rules in 1997 while UNDP is also reviewing and revising its financial Regulations and Rules and associated procedures. In view of the linkage between the Financial Regulations and Rules of UNDP and those of the Office, the latter has deferred the finalization of its revision until UNDP has completed its work. During the interim period, the Office will continue to use its own Financial Regulations and the UNDP Rules applied *mutatis mutandis*.

Presentation of financial statements

3. The financial statements have been prepared, in all material aspects, in accordance with the United Nations System Accounting Standards, with due consideration given to the fact that the Office is self-financed, that is, its administrative expenditures are financed by the income it earns.

Accounting policies

4. A summary of significant accounting policies applied in the preparation of the financial statements is provided in note 2 to the financial statements. The policies are consistent with those which the Office applied in prior years when it was part of UNDP.

United Nations Office for Project Services account

5. As shown in statement I, in the biennium 1996–1997 ended 31 December 1997, the Office's income from all sources totalled $78,432,758 and its administrative expenditure reached $70,254,817. Therefore, in the biennium ended 31 December 1997, income exceeded administrative expenditures by $8,177,941. Comparative figures for the biennium ended 31 December 1995 for income and administrative expenditures were $59,368,959 and $55,614,692 respectively, for the biennium 1994–1995, the excess of income over expenditure was $3,754,267.

United Nations Office for Project Services income

6. Total income earned in the biennium 1996–1997 ended 31 December 1997 of $78,432,758 was derived from the following sources: $66,666,826, or 85 per cent of the total, from project implementation services; $6,879,002, or 9 per cent of the total from services provided to the International Fund for Agricultural Development (IFAD); $1,527,319, or 2 per cent of the total, from interest income; $3,209,611, or 4 per cent of the total, from other sources.

7. Compared to the biennium 1994–1995 income of $59,368,959, the Office's income in the biennium 1996–1997 increased by $19,063,799. This resulted from the significant increase in project and service implementation by the Office across the range of its portfolio.

(a) Income from project implementation

8. The range of sources of income from project implementation are detailed in schedule 1 of the financial statements. The Office earned a total of $66,666,826 from support costs and management fees during the biennium 1996–1997. The main elements of this income can be summarized as follows: $34,662,419, or 52 per cent, of the total, from UNDP-funded projects; $13,598,834, or 20 per cent, of the total for management fees for projects funded under the Management Service Agreement modality and $12,493,553, or 19 per cent, of the total, from projects financed by UNDP-administered trust; $4,319,268, or 6 per cent, of the total, from services which the Office provided as either cooperating or associated agency; $1,173,934, or 2 per cent, of the total, from projects funded by the United Nations International Drug Control Programme.

9. The United Nations Office for Project Services began implementing projects for other United Nations organizations in 1996, with 14 projects for five United Nations agencies. In 1997 there are 32 projects for 12 agencies. Total income earned in this category of activity in the biennium 1996–1997 amounted to $418,818.

(b) Income from the loan adminstration and project supervision of the International Fund for Agricultural Development (IFAD)

10. The Office earned in the biennium ended 31 December 1997 a total of $6,879,002 as compensation for loan administration and project supervision services provided to IFAD.

11. Services to IFAD are provided on the basis of a cooperation agreement which the Office signed with IFAD on 20 September 1995. Prior to that date the services were provided under a similar agreement signed between UNDP and IFAD. Under this agreement, the Office, as a cooperating institution, provides loan administration and project supervision services for a portfolio of IFAD projects. As a loan administrator, the Office reviews and approves the withdrawal applications submitted by Governments to draw funds from the loan account maintained by IFAD. As a supervisor of the implementation of IFAD projects, the Office undertakes project supervision missions to assess the status of project implementation, identify operational problems and propose corrective actions to be taken. As at 31 December 1997, the Office supervised a total of 124 projects and administered a loan portfolio of $1.6 billion.

12. Following the Office's authorization, IFAD paid in the biennium 1996–1997, $278.8 million of loan proceeds to Governments. IFAD loan disbursements do not pass through the Office's accounts, since they are paid directly to the loan recipient Governments and, therefore, they do not form part of the Office's delivery.

(c) Other income

13. During the biennium ended 31 December 1997, the Office also received other income totalling $4,886,930. This included a total of $2,504,276 from the Governments of Denmark and Switzerland to defray costs associated with the relocation of the Office to Copenhagen and Geneva. A further $1,527,319 of interest was earned through the investment of its accumulated unspent income, including $150,000 for accounting services rendered to the Programme of Assistance to the Palestinian People. In 1994–1995, the Office earned interest income totalling $683,727 (only for 1995) and $100,000 for services to the Programme of Assistance to the Palestinian People.

Administrative budget and expenditure of the United Nations Office for Project Services

14. At its third regular session, in September 1997, the Executive Board, in its decision No. 97/22 approved the Office's revised budget estimates for the biennium 1996–1997, in the amount of US$ 70,674,000. As shown in schedule 2 of the financial statements, the Office incurred administrative expenditures totalling $67,750,541; $32,182,800 in 1996 and $35,567,741 in 1997, leaving an "unencumbered balance" of $2,923,459. Schedule 2 also reflects costs totalling $2,504,276 associated with the relocation of the Office to Copenhagen and Geneva. The contribution from the host Governments matched the costs associated with the relocation.

15. The budget estimates approved by the Executive Board are not "appropriations", nor does the United Nations Office for Project Services take such approved budget as authorizations to spend. The budgets approved by the Executive Board represent the best estimates of expenditures to be incurred and actual expenditures are incurred only when sufficient income is projected to be available.

Operational reserve

16. As decided by the Executive Board at its third regular session in September 1997, the operational reserve was established at 4 per cent of the combined expenditure on administrative and project delivery of the previous year. A second decision was made to transfer unspent income to the reserve account until the appropriate level is reached. The combined 1996 administrative and project expenditure amounted to $464,399,777; 4 per cent of which is $18,575,991. The 1996 accumulated unspent income of $10,755,362 was transferred to the operational reserve for a new total of $17,555,362 at the end of the current biennium. None of the funds of the operational reserve were utilized in 1997.

Ex gratia payments and write-offs of cash and receivables

17. One write-off case in the amount of $146,769.80 was recorded and no ex gratia payments were made during the biennium ended 31 December 1997.

Project expenditures (United Nations Office for Project Services delivery)

18. In the biennium 1996–1997, the Office delivered project expenditures, excluding support costs and management fees, totalling $893,887,153, while for the biennium 1994–1995 the equivalent total was $768,711,457. The 1996–1997 achievement represents a $125,175,696, or a 16 per cent increase over the value delivered in the biennium 1994–1995.

Projections of the Office's portfolio, income and administrative expenditures and income

19. In the document entitled "Revised budget estimates for the biennium 1996–1997 and budget estimates for the biennium 1998–1999" (DP/1997/29), the Executive Director reported to the Executive Board that the value of the Office portfolio at the end of 1997 was targeted to reach a total for both the project and services portfolios of $3 billion, and that this was not projected to increase significantly in the biennium 1998–1999. The income forecast for the biennium 1998–1999 totalled $84.7 million, an increase of 8 per cent over the biennium 1996–1997. The total administrative expenditure forecast for the biennium 1998–1999 is also $84.7 million, reflecting the proposed treatment of the not yet detailed computer system implementation costs. The proposal contained in document DP/1997/29 was considered to meet the Office self-financing obligations by the Executive Board, which endorsed it.

Chapter II

Report of the Board Of Auditors

Summary

The Board of Auditors has audited the operations of the United Nations Office for Project Services. The Board also validated the financial statements of the Office for the biennium ended 31 December 1997. In addition, it carried out management audits of the procurement of goods and equipment; the management of human resources; and the management of information technology.

The Board's main findings are:

(a) In the absence of receipt and inspection reports, and alternative sources of receipt information, the Office had no assurance that goods and equipment had arrived in satisfactory condition;

(b) The financial system did not give a complete picture of the financial progress of projects;

(c) An inventory of information systems had been completed and the Office was in the process of assessing the systems for year 2000 compliance.

Key recommendations made by the Board are:

(a) All field offices should be reminded of the importance of completing the receipt and inspection reports;

(b) The Office should identify the shortcomings of the present financial reports, establish the key information required and decide on the form and frequency of the reports;

(c) The Office should ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

A list of the Board's main recommendations is contained in paragraph 9 of the Board's report.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Office for Project Services for the period from 1 January 1996 to 31 December 1997, in accordance with General Assembly resolution 74 (I) of 7 December 1946, and article XII of the Financial Regulations of the United Nations Office for Project Services. The Board conducted its audit in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These Standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January 1996 to 31 December 1997 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the United Nations Office for Project Services presented fairly the financial position as at 31 December 1997. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the United Nations Financial Regulations. The reviews primarily concerned the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of the Office. The Board examined the procurement of goods, the management of human resources and the management of information technology.

4. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the Administration.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration whose views, where appropriate, have been reflected in the present report.

6. The Board's main recommendations are reported in paragraph 9. The detailed findings are reported in paragraphs 10 to 81.

1. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations which were made in the Board's report relating to the biennium 1992-1993 and which have not been fully implemented by the Administration:

(a) There continue to be shortcomings in the completion of receipt and inspection reports to confirm that goods have been received in satisfactory condition;

(b) There were no performance measures and targets to assist management in monitoring and assessing the efficiency of procurement activities.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the

recommendations made in its report for the period ended 31 December 1995. Details of the action taken and the comments of the Board are set out in the annex to the present report.

2. Main recommendations

9. The Board's main recommendations are:

(a) The Office should finalize its handbook on procurement procedures as a matter of priority (para. 25);

(b) The Office should ensure that procurement plans are drawn up for each project, detailing items to be purchased and indicating a likely timetable for action (para. 29);

(c) Where requisitions are prepared by procurement staff they should be approved by project managers prior to processing and this approval should be formally evidenced (para. 31);

(d) All field officers should be reminded of the importance of completing the receipt and inspection reports (para. 33);

(e) The international consultant evaluation form should be revised to encourage a more rigorous evaluation of the final output against measurable objectives and targets in the terms of reference; and that field offices be reminded to complete evaluations of special service agreement assignment (para. 50);

(f) The Office should ensure that there is a complete, up-to-date, annual appraisal for every member of staff and that a central record be maintained of the staff appraisals (para. 62);

(g) The Office should identify the shortcomings of the present financial reports, establish the key information required, and decide on the form and frequency of the reports (para. 72);

(h) The Office should ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies (para. 79);

(i) The Office should carry out liaison with UNDP to ascertain to what extent it had assessed the impact of the year 2000 issue for the interface with UNDP systems (para. 80);

(j) The Office should establish a process for recording and reporting fraud (para. 81).

B. Financial issues

1. United Nations System Accounting Standards

10. The Board has assessed the extent to which the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 1997 conformed to the United Nations System Accounting Standards. The review indicated that the presentation of the financial statements is generally consistent with the Standards, with the following exception.

11. Paragraph 41 of the Standards states that forward commitments should be recorded in the accounts or disclosed in a note to the financial statements. As the financial system operated by the Office does not record forward commitments, the financial statements do not comply with paragraph 41. The Office informed the Board that a new financial system

will be adopted in the course of biennium 1998-1999 which will permit the recording of forward commitments.

2. Operational reserve and annual surpluses of income over expenditure

12. The purpose of the operational reserve is to cover shortfalls in income and uneven cashflows; professional or contractual liabilities associated with the Office's services; and personnel contracts financed from the Office's account.

13. In its decision 97/21, the Office's Executive Board set the target for the reserve at 4 per cent of the combined expenditure on administrative and project budgets of the previous year. This produced a target level for the reserve for 1997 of $18.5 million (4% of the combined expenditure of $462.9 million on administrative and project budgets in 1996). The closing balance on the reserve at 31 December 1997 was $17.6 million. The reserve is therefore $0.9 million below the required level.

14. The Office informed the Board that it intends to achieve full funding in due course by the retention and transfer to the reserve of the annual net excess of income over-expenditure. Once the reserve is fully funded, the Office intends to plan its project implementation activities, including the fee income it earns on projects, so as to maintain the principle of self-financing.

15. The Office expected to adopt a target for biennial income of 103 per cent of expected biennial administrative expenditure once the reserve is fully funded. This target level of income is designed to allow the Office to cover its administrative costs, maintain its reserves and provide some flexibility in the event of unexpected reductions in project activity in the course of a biennium.

3. Imprest and petty cash accounts

16. The Board was unable to verify the validity of 48 imprest or petty cash accounts with balances totalling $93,344 due to the absence of bank reports or other supporting records. The Board noted that, of these accounts, 33 accounts with an aggregate balance of $42,650 showed no activity throughout 1997 and nine accounts with a balance of $73,898 showed only minimal activity. The remaining six accounts showed credit balances totalling $23,204.

17. At the Board's request, the Office conducted a review of the imprest and petty cash accounts. The Office informed the Board that by June 1998, it had properly recorded 21 of the petty cash balances, 16 dormant accounts had been closed, and efforts were continuing with the 11 remaining accounts.

4. Write-off of losses of cash, receivables and property, and ex gratia payments

18. The Office informed the Board of one case of write-off involving a loss of $146,769 incurred when a payment was incorrectly made to a third party. Efforts are continuing to recover the amount. No ex gratia payments were reported.

C. Management issues

1. Procurement

Introduction

19. Procurement of goods and equipment is a core activity for the Office, forming the main component of many of the projects undertaken on behalf of clients: for 1996 total

international procurement of goods and equipment amounted to $140 million (representing 1,158 purchase orders), with additional local procurement of $26,000. More than the 56 per cent of the purchase orders (by volume) were for items with a value of less than $30,000.

20. The general principles underpinning procurement procedures in the Office are set out in financial rule 114.18. The Executive Board has stressed the need to ensure that adequate consideration be given to the desire for long-term sustainability, maintenance and compatibility with local requirements in developing countries in making procurement decisions in line with the general principles of procurement.

21. The Board examined:

(a) Actions taken to strengthen the procurement procedures since the biennium 1992-1993; and their outcome in the current operating environment;

(b) Guidance developed in the Office new finance handbook, and its application in the procurement process;

(c) The Office's move to decentralize the procurement function, and the extent to which this change facilitates an efficient and effective operation.

Training of staff

22. The Board examined the procurement of goods and services during the 1992-1993 audit of the Office of Project Services (now United Nations Office for Project Services) and concluded that there were few staff in the central procurement section with any recognized qualifications in procurement. The Board considered that the level of procurement activity, and the complex nature of some of the items being purchased, warranted specialist staff with relevant experience and training in purchasing techniques. In addition, the Board concluded that there were a number of weaknesses in the procedures applied by headquarters purchasing unit, and that the Office could take steps to adopt a more commercial approach to purchasing.

23. Chief technical advisors in the field are responsible for purchasing items locally on behalf of projects up to a value of $30,000. The majority of such staff had received little training in the Office's purchasing procedures, with the risk that poor value for money may be obtained. The Board considered that a short training course would promote an understanding of the need to exercise control and lead to more effective local procurement. **The Board recommends that at least one senior staff member in each field office that regularly undertakes procurement should attend a procurement course.** The Office agrees with the importance of proper training for all staff involved in procurement and has taken steps to ensure that staff from decentralized offices continue to participate in training programmes.

Handbook of procedures

24. Since the Board's examination in 1992-1993, the Office has introduced a handbook to provide guidance for officers involved in the procurement and payment process. The Board welcomes this development. The Board notes, however, that the guidance is incomplete: for example, chapters on the role of the project management officer and project monitoring are not yet drafted; there are plans to provide a number of sections at a future date, for example, a checklist of necessary steps in the procurement process; and parts are presented as an interim text, for example, the chapter on procurement of equipment and supplies.

25. **The Board recommends that the Office finalize the handbook on procurement procedures as a matter of priority.** The Office agrees and is carrying out the necessary steps.

Decentralization of purchasing

26. In 1996, the Office decentralized the purchasing function. Purchasing is now undertaken by purchasing assistants or officers integrated into the operational divisions; procurement specialists in the Procurement Projects Division in Copenhagen; or the Office's field personnel or UNDP Resident Representatives under delegated authority from the Executive Director of the United Nations Office for Project Services. A Purchasing Support Unit provides practical training and technical backstopping for the integrated divisions. The principal aim of these changes was to bring the role of purchasing closer to the point of initiation and management of projects, thus improving responsiveness to project needs.

27. Although the Office informed the Board that the decentralized purchasing had led to improvements in delivery, the Board was unable to verify this in the absence of data on delivery records. The Board considers that the Office should monitor centrally the procurement performance of the integrated divisions and develop and monitor procurement performance indicators, such as speed of delivery and prices. The Office agrees that performance indicators would be a valuable management instrument and, during 1997, collected and reviewed some indicators on price performance. It intends to review possible indicators and begin collecting baseline data in 1998.

Identification of items to be purchased

28. For items procured by the field office (generally below $30,000, or where further delegated, up to $100,000), the Office requires the authorizing officer to prepare a procurement plan, giving a detailed list of anticipated purchases. The procurement plan should indicate whether the items are to be bought in-country or internationally, the timing of the purchase, the delivery date required and estimated cost. The authorizing officer's procurement plan should be submitted to the project manager at least one month prior to the field's first proposed procurement action.

29. The Board found that, in practice, procurement plans were rarely prepared. **The Board is concerned at the absence of planning documentation from the field offices, and recommends that the United Nations Office for Project Services ensure that procurement plans are drawn up for each project, detailing items to be purchased and indicating a likely timetable for action.** The Office agreed, but considered that it is unrealistic to expect procurement plans in the many countries with fast changing and emergency situations.

Product requisition

30. If a purchase is likely to exceed $30,000 and competitive bidding is required, the project manager should forward the requisition, with a planning document in the case of field office procurement, to the office's purchasing staff some three to six months in advance of the required delivery. The Board found that requisitions were rarely forwarded to purchasing staff sufficiently in advance of required delivery.

31. For all purchases, the project manager is required to sign the requisition as authorization of the procurement process and to confirm that funds are available. The Board found only 2 out of 18 cases where this had been done, both for the Montreal Protocol, a UNDP fund for helping developing countries to phase out ozone-depleting substances. The Board also noted that, on occasion, purchasing staff prepared the requisition forms and

processed the order from information supplied directly to them from either the project manager or the field office. The Board considers that project managers should approve the requisitions. **The Board recommended, and the Office agreed, that where requisitions are prepared by procurement staff they should be approved by project managers prior to processing and that this approval should be formally evidenced.**

Receipt and inspection

32. Supplies and equipment should be inspected on receipt to ensure that they comply with the contract and that their condition is satisfactory. The Office requires field offices to complete a receipt and inspection report 15 days from receipt of goods or equipment.

33. None of the 18 procurement actions examined by the Board contained a completed receipt and inspection report. The Office informed the Board, however, that in many cases, for example, under the Montreal Protocol, alternative confirmation of satisfactory delivery is sought and obtained. Nonetheless, the Office acknowledged its poor record in obtaining notification of receipt of items delivered, and suggested that the Chief Technical Advisor should be held accountable for ensuring the necessary compliance with requirements for inspection on delivery. **The Board recommends that all field officers be reminded of the importance of completing the receipt and inspection reports.**

Performance measures

34. At the time of its 1992–1993 audit, the Board noted that the Office for Project Services did not have performance measures to evaluate the procurement process. During its current examination, the Board found that the United Nations Office for Project Services measures and monitors its performance in terms of an annual value of procurement for projects within a division. The Board considers that performance measured purely in terms of a value of delivery does not provide useful information as to whether the Office is providing a timely, quality service, or whether performance is improving.

35. The Board recommends that the United Nations Office for Project Services should develop a set of indicators to assess whether the procurement activity is effective and efficient, and that best value is achieved. Examples of possible indicators include: turn-around time of purchase order following requisition raised by the project manager or field office as a measure of efficiency; and achievement of at least the level of discount identified in the Inter-Agency Procurement Services Office catalogue for certain commonly procured items as a measure of economy.

2. The management of human resources

Introduction

36. A key activity in the management of human resources in the Office is recruitment of skills and expertise to support projects in the field. The two main instruments by which this is achieved are the recruitment of national professional project personnel and international consultants under special service agreements. Currently, the Human Resource Management Services Unit is undergoing restructuring and is decentralizing the recruitment of personnel to support projects to the divisions and field offices.

37. The Office has established 35 new posts since January 1996, bringing the previous approved total from 244 to 279. Salaries and common staff costs are the largest component of the Office's administrative budget. For the biennium 1996–1997, the revised estimate for salaries was $21,393,000. UNDP provides certain central personnel and other administrative services, for which it levies a charge.

38. The Board's examination focused on (a) the role of UNDP in providing personnel and human resource services and the basis for its flat rate charge for those services; and (b) the development of the Office's human resource management strategy.

Recruitment of government officials

39. National professional project personnel are nationals of the host country, and expatriates who are residents of the host country and who are recruited in that country, performing duties of a professional or support nature. The recruitment of national professional project personnel aims to provide the host Government with additional skills to achieve the objectives of UNDP-supported projects in that country. Recruitment of government officials under these arrangements is actively discouraged by both the Office and UNDP management, as this reduces resources available to the country's public sector.

40. Of 15 national professional project personnel cases examined, eight related to the recruitment of one or more government officials. For example, one project recruited seven government officials for part-time work for three months between 6 November 1997 and 28 February 1998. There was little evidence that field offices had conducted a rigorous search to identify potential candidates, or that they had actively avoided recruiting government officials.

41. The Board considers that field Offices should make every attempt to consider a range of candidates for national professional project personnel posts, and that the selection should include individuals not employed by a Government. The Office informed the Board that secondment may be a practical alternative where the only viable candidate is a government official.

42. The Board recommends that the United Nations Office for Project Services apply more rigorously its policy not to recruit government officials as national professional project personnel.

43. Extensions of contracts beyond one year should be subject to a satisfactory evaluation of the work undertaken. However, the Board found little evidence that evaluations of national professional project personnel's work were conducted. **The Board recommends that the United Nations Office for Project Services remind field offices to evaluate the work of national professional project personnel.** The Office, recognizing that no formal requirement exists to evaluate the work of such personnel, will ensure that more formalized evaluation is instituted.

Issue of national professional project personnel contracts

44. Field offices are required to report to headquarters the name of the individual national professional project personnel recruited and the project details within one month of the contract being issued. In practice, however, details of recruitment were often not provided by the field office for several months. The Board found more than 1,100 contracts which had not been reported to headquarters, some dating back to 1994.

45. The Board recommends that field offices be instructed to provide headquarters with details of national professional project personnel recruited, as required.

Special service agreements

46. The Office recruits international consultants from a range of specialist disciplines under special service agreements. Such assignments should last 11 months or less and there must be a break in service of four months before the individual can be re-employed.

47. In its 1995 report, the Board drew attention to the need to review the practice of repeated recruitment of the same consultant to ensure there was sufficient choice in the selection process. To help identify suitable candidates, the Office maintains the consultant roster "RESTRAC". This is under review to identify information which is not up-to-date, and to improve procedures for entering candidates into the records.

48. The Office informed the Board that it planned to test a new roster and performance rating system in 1998, which would include full details of the consultants, as well as a performance rating, and that it expected the eventual system to reduce the already low evidence of inappropriately repeated recruitment.

Evaluation of consultants' work

49. Each assignment should be evaluated promptly after completion of the work. Of the 15 special service agreement cases examined by the Board, appropriately completed evaluation reports were available only for seven. The basic evaluation forms, however, did not provide for measurable objectives to be taken from the terms of reference of the assignment, and there was no requirement to confirm that the output had met the objectives and was usable.

50. The Board recommends that the international consultant evaluation form be revised to encourage a more rigorous evaluation of the final output against measurable objectives and targets in the terms of reference, and that field offices be reminded to complete evaluations of special service agreement assignments.

51. The Office agrees with the need to review the evaluation form. It is reviewing its relevance and appropriateness, together with ways of improving compliance with requirements.

***Ex post facto* approval and retroactive actions**

52. The Board noted that the Human Resource Management Services Unit was increasingly seeking *ex post facto* approvals to sanction personnel actions which were outside the scope of the Office rules and guidelines. Examples included recruiting government officials as national professional project personnel, extending consultants' contracts beyond the maximum duration, or for retroactive and *ex post facto* approval of actions to recruit. A high volume of such cases diminishes the impact of a truly exceptional circumstance.

53. The value of reported *ex post facto* approvals increased from some $200,000 during September 1995 to April 1996 to $620,000 during January to June 1997. Since mid-1995, the total value of *ex post facto* cases amounted to approximately $1.3 million.

54. The Board recommends that the United Nations Office for Project Services review the use of *ex post facto* and retroactive agreements with the aim of eliminating the practice. The Office informed the Board that it recognizes the risks and liabilities involved in such cases and that each case is individually reviewed.

Monitoring of national professional project personnel and special service agreements

55. Details of individual national professional project personnel and special service agreements recruited are entered on separate databases, namely, the national consultants database and the international consultants database respectively. The Board found that there was no systematic review of the databases to identify exceptions, errors, trends or patterns. The Board considers that certain key information should be reported regularly, such as

unconfirmed contract numbers issued to field offices for recruitment of local national professional project personnel; ex-United Nations staff employed for more than six months or earning more than the permitted maximum of $22,000 in one year; recruitment of individuals on special service agreements who are then recruited as reimbursable loan agreements; and consultants re-employed and for whom no evaluation exists for previous assignments.

56. The Board recommends that the United Nations Office for Project Services should regularly review the database. The Office informed the Board that it is designing new personnel management database systems which can be used for strategic planning and monitoring purposes.

Performance appraisal

57. The General Assembly, in its resolution 51/216 of 18 December 1996, requested the Secretary-General to make proposals on the possibility of introducing a system of performance awards or bonuses, in the context of the performance appraisal system, to a limited number of staff in recognition of their outstanding performance and specific achievements in a given year. Executive heads of the organizations of the United Nations common system were to develop and submit proposals.

58. The Office informed the Advisory Committee on Administrative and Budgetary Questions in September 1995 that it intended to formulate a reward policy, in the form of a bonus, based on staff performance. The Board notes that, because of changes to the Human Resource Management Services unit, the Office has not yet finalized its reward policy.

59. A new performance appraisal system for the United Nations began in 1996, as a means of measuring the way in which assigned tasks were carried out. In line with the introduction of the new United Nations system, the United Nations Office for Project Services required an annual appraisal to be completed for every member of staff. The Office informed the Board that senior managers received training in staff appraisal and that the benefits of this training would be passed down to all staff.

60. For staff to be promoted, completed up-to-date appraisals are required by the management board in time for review against completed applications from external candidates. However, there was no central monitoring of staff appraisals to ensure that they had been properly completed in respect of all staff members. In some cases, appraisals had not been completed for several years. The Board considers that the absence of an annual appraisal for every member of staff is inconsistent with sound performance management.

61. In 1997, the Office introduced an upward appraisal system whereby staff report on their managers, and vice-versa, in order to encourage a less formal hierarchical organization, and the building of team spirit. The first phase of the initiative included all division chiefs. An evaluation of this first year was completed in 1998. As a result of the review, the Office decided to develop a system of feedback for staff development purposes.

62. The Board recommends that the United Nations Office for Project Services ensure that there is a complete, up-to-date, annual appraisal for every member of staff and that a central record be maintained of the staff appraisals. The Office agrees that such an appraisal is indispensable for staff development, but that it had not been made. It is committed to addressing the issue. It recognizes that 100 per cent compliance is a prerequisite for a performance based reward system as well as effective staff development and training, and it will pursue these initiatives in the near future.

3. The management of information technology

Introduction

63. In 1993, the UNDP Office of Project Services, the United Nations Office for Project Services' forerunner, commissioned a review of its information systems and the development of an interim strategy covering the period to 1997. This review found that the Office of Project Services' investment in systems management, training and user support aspects lagged behind its investment in technology areas and had not been accorded a high priority. In consequence, the Office of Project Services had obtained less than optimal returns on its technology investments and system usage levels were low. Amongst the specific weaknesses identified were: insufficient staff resources to provide on-site end-user operational support; inadequately trained staff; possible risks to security; and lack of back up and disaster recovery procedures.

64. Recommendations from the review included: more systems training and increased user support; improved information management and further development of applications; and the development of a strategy to assess the implications to the Office of Project Services of the introduction of the United Nations Integrated Management Information System (IMIS).

65. The business plan for 1996 aimed to update and increase effective utilization of info.mation systems resources, including the Office's conversion to IMIS, with the expected benefit of providing better systems integration with the United Nations. The Office regarded this latter aim as a medium-level priority, and considered that it would be likely to involve substantial expenditure.

66. The Board examined the development and implementation of the information systems strategy to support the Office's programme and administrative activities and progress against the 1995 and 1996 business plan objectives. Specifically, the audit focused on the introduction and implications of IMIS; procedures for introducing new information technology hardware; and problems associated with the year 2000.

67. The Board's examination included a survey of staff, by questionnaire, to determine their awareness of information technology developments, utilization of systems technology and skills and training requirements. The survey was limited to a sample of staff and 31 completed replies were returned to the Board.

IMIS

68. The United Nations Office for Project Services depends on UNDP for key finance and accounting functions, and UNDP agreed in 1993 that it would implement IMIS. In 1997, the Office undertook a review of its business system and concluded that IMIS was compatible with its operational needs and should therefore be implemented. Staff of the Office are represented on the UNDP IMIS working parties, which meet to discuss progress and problems. The Board encourages the Office to maintain strong participation in UNDP's IMIS working parties, and to persevere with its links with the IMIS project development consultants.

New computer hardware

69. In early 1997, the Office introduced new systems hardware, at a cost of $3.2 million, to replace outdated equipment. The contract had been let on a competitive tender basis. The Board examined the bid evaluation process, contract preparation and approval procedures, and found that the management and control of the contracting process was in accordance with the Office's procurement guidance and procedures. The Office has assured the Board

that, in anticipation of a new financial system, the new hardware was planned to have sufficient capacity to cope with either IMIS or an alternative system; and to be able to cope with the technical demands arising from the millennium change in the year 2000. The Board was pleased to note that the Information Section held courses to familiarize all staff with the new hardware. All staff were invited to attend workshops, review documents, and evaluate and rank requirements.

70. The Board's survey of the Office's staff included questions to obtain their views on their knowledge and understanding of the new system and ongoing systems development. While 68 per cent of those consulted felt that the information provided was appropriate for their needs, the same proportion of respondents felt that the information was out of date, and nearly half of them had doubts about its accuracy. Almost all respondents felt the need to maintain a back-up manual, and paper-based information systems in addition to the information technology systems.

71. The Board found that concerns over the timeliness and accuracy of data arose from two problems. First, several of the systems in operation throughout the United Nations Office for Project Services contained similar yet not quite matching data. For example, the Board noted that project delivery reports and "forest and trees" reports both provide project procurement information, but that there was a mismatch of data, due to timing of data entry. Second, there was "duplicate" keying in of the same data at various points in transaction processes – a quarter of the respondents to the survey indicated that they were required to enter the same data more than once. This occurred, for example, during the entry of contract details and the posting of the related obligations. The Board understands that the need for the duplicate keying-in is due to the absence of a central database, and that this problem is unlikely to be solved by the introduction of IMIS. The Board suggests that in current and future information technology developments, the Office should align its systems to ensure proper matching of all data inputs; and identify and eliminate points where duplicate keying occurs, with the aim of avoiding the need for manually-maintained back-up records.

72. Some 65 per cent of the respondents to the Board's survey wanted more user-friendly reports. The Office informed the Board that the existing management information reports did not provide a "snapshot" of the organization, giving such information as the Office's financial status, and progress against business objectives. The Board noted, in particular, that with the financial system, project managers do not have access to a complete picture of the financial progress of their projects; and that, without timely information as to actual expenditure, they cannot readily monitor and control cash availability against their activities. **The Board recommended that the United Nations Office for Project Services identify the shortcomings of the present financial reports, establish the key information required, and decide on the form and frequency of the reports.**

73. The Office is in full agreement with this recommendation and expects to implement it in conjunction with the implementation of IMIS. However, the Office considered that progress would be slow because additional IMIS functionality will not be forthcoming in the short term and resources are limited.

Development of an information technology strategy

74. The Board considers that the Office's 1993 Interim Information Technology Strategy can no longer be relied on to guide current developments and plans. The Board considers that the lack of an up-to-date strategy adversely affected the planning and approving of information technology projects. Projects, such as the procurement of a new document management system, are assigned resources for hardware, software and training. The Office has no mechanism for bringing together the details of individual information technology

projects, setting out their purpose, timetable for introduction, resource needs and points for interface with users. With an up-to-date information technology strategy, the Office could establish a strategic view of all the information technology projects and developments, ensuring that they are properly coordinated and efficiently implemented, as well as meeting its business needs.

75. The Board recommended, and the United Nations Office for Project Services agreed, that the establishment of an up-to-date information technology strategy should be accorded high priority.

Year 2000 issue

76. The Board undertook a study to assess the preparedness of the Office for managing the year 2000 issue, which threatens all information systems.

77. The United Nations Office for Project Services Information Section is responsible for ensuring that the Office responds to the problem of the year 2000 date change in a coordinated and coherent way, that adequate support and advice is given to operational groups, and that progress is monitored. The Board concluded that the Information Section had taken steps to address what it perceives are the immediate issues for the Office's information technology systems. As an example, new computer hardware purchased and installed in 1997 was year 2000 compatible.

78. UNOPS was formulating a year 2000 strategy which relied partly on the conversion of systems to IMIS. An inventory of information systems had been completed and the Office was in the process of assessing the systems for year 2000 compliance., The Office informed the Board that, where systems had not been overtaken by implementation of IMIS, these would be made year 2000 compliant, or an alternative solution would be found.

79. The Board recommends that the United Nations Office for Project Services should ensure that all systems are tested for year 2000 compliance, with sufficient lead time to address any deficiencies.

80. The Board notes that the Office has yet to assess the impact of year 2000 in relation to its interface with other bodies, in particular, UNDP. **The Board recommends that the United Nations Office for Project Services should coordinate with UNDP to ascertain to what extent it had assessed the impact of the year 2000 issue for this important interface**. The Office informed the Board that it was in contact with UNDP on the matter.

4. Cases of fraud or presumptive fraud

81. The Office informed the Board that five cases of fraud and presumptive fraud had been identified during the biennium. In those cases, the Office had identified financial losses totalling $162,321, of which recovery action for $20,069, in respect of one case, had been initiated. All five cases involved project staff members, and four of the cases remained under investigation. While the Board is satisfied with the completeness and accuracy of fraud reporting, it notes that the Office does not have an established process for the recording and reporting of fraud. **The Board recommends that the United Nations Office for Project Services establish a system for recording and reporting fraud and presumptive fraud.**

D. Acknowledgement

82. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and staff of the United Nations Office for Project Services.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General
of India

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report on the financial statements of the United Nations Office for Project Services for the biennium ended 31 December 1995[a]

Recommendation 9 (a)

1. The United Nations Office for Project Services should report to the Executive Board on progress in finalizing its new, dedicated Financial Rules and indicate a timetable for presentation of the Rules to the Executive Board for approval.

Measures taken by the Administration

2. The Office started a complete review of its Financial Regulations and Rules, which are linked to UNDP Regulations and Rules, in 1997. In view of this linkage, the Office intends to defer finalization of the revision of its Regulations and Rules until UNDP completes a review of its own Regulations and Rules, and associated procedures. In the interim, the Office will continue to apply its own Financial Regulations and the UNDP Rules applied *mutatis mutandis*.

Comments of the Board

3. The Board will monitor developments.

Recommendation 9 (b)

4. The United Nations Office for Project Services should issue further guidance to certifying officers to clarify that only those purchase orders or contracts signed and issued within the financial period represent valid obligations for that period.

Measures taken by the Administration

5. The Office prepared new guidance for certifying officers concerning the signing and issuing of purchase orders and contracts and included this guidance in the United Nations Office for Project Services Handbook.

Comments of the Board

6. In addition to the new sections in the United Nations Office for Project Services Handbook, the Board is pleased to note that, prior to the period end, the Office reminded certifying officers of their responsibilities to ensure that all purchase instruments represent valid obligations for the biennium 1996–1997.

[a] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5A* (A/51/5/Add.10), chap. II, paras. 9–12.

Recommendation 9 (c)

7. The United Nations Office for Project Services should closely monitor actual expenditures against budget to avoid the high incidence of over-expenditure.

Measures taken by the Administration

8. The Office monitors actual project expenditures against budget, to manage the project funds efficiently and avoid over-expenditure, as an ongoing and regular part of its financial management practice.

Comments of the Board

9. The Office issues periodic budgetary and out-turn data to Division Chiefs, and in the future intends to produce this information at regular, quarterly intervals. Despite these measures, the Board is concerned that there continues to be a high incidence of projects with an overspend against budget. Further action is required by the Office to improve the financial management of projects.

Recommendation 10 (a)

10. The United Nations Office for Project Services should set realistic objectives in its business plans and consider the costs and benefits of undertaking planned tasks.

Measures taken by the Administration

11. The Office shifted the focus of its 1996 business plan to objectives rather than tasks and, in 1997, identified five priority work areas. For each work area, the Office stated related cost considerations and associated benefits, and identified required tasks, together with measures of success.

Comments of the Board

12. The Board welcomes the move towards an objective orientated approach to planning.

Recommendation 10 (b)

13. The United Nations Office for Project Services should assess the potential impact that the shifting composition of its portfolio could have on its financial position and set financial targets which reflect its differential income rates.

Measures taken by the Administration

14. The Office started assessing the impact of the shifting composition of its portfolio on its financial position in the 1996 business plan, and refined the process in the 1997 business plan, which was developed on the basis of individual operations' unit plans, each reflecting the nature of its portfolio. That process is continuing, with further refinements, in the development of the 1998 business plans.

Comments of the Board

15. One result of the Office's assessment of the shifting composition of its portfolio is its adoption of a policy of diversification of client base which aims to reduce the risk of dependence on one core client. The Office will require good quality costing information to support successful diversification of business in respect of new clients or new product lines.

Recommendation 10 (c)

16. In future business plans, the United Nations Office for Project Services should prioritize tasks to ensure that they are implemented according to their respective importance to the organization.

Measures taken by the Administration

17. The Office prioritized tasks as part of its 1996 and 1997 business planning process, and will be pursuing this approach as part of its normal planning procedures for future plans.

Comments of the Board

18. The Board welcomes the move to prioritization of tasks. The Office informed the Board that it based its prioritization on a number of criteria, including an estimate of the cost of individual tasks and the effort, in terms of time and human resources, that would be required for their completion.

Recommendation 10 (d)

19. The United Nations Office for Project Services should establish appropriate measures of success and benchmarks of current performance to assess the impact of its business plans on quality of service and client relations.

Measures taken by the Administration

20. The Office incorporated measures of success in both the 1996 and 1997 business plans, and this approach continues for 1998. The Office is currently conducting a client satisfaction survey to follow up the baseline study performed in late 1994. The results of this follow-up survey are being taken into consideration in the development of the 1998 business plan, and the Office envisages that data from this survey will provide a quantitative measure of perceived performance change over the three years since the establishment of the Office.

Comments of the Board

21. The Board endorses the efforts of the United Nations Office for Project Services to introduce a method for evaluating progress against and the impact of the business plan, particularly in terms of client relations. The collation of such data will, in the long term, set benchmarks for assessing overall improvement.

Recommendation 10 (e)

22. The United Nations Office for Project Services should prepare an evaluation strategy.

Measures taken by the Administration

23. The Office completed both an interim and follow-on evaluation of its Asia Office, which were positive. Beginning with the report submitted at the annual session of its Executive Board in 1997 (DP/1997/19), the Executive Director began to synchronize the annual report on the activities of the Office with the targets and objectives specified in the business plans. This establishes a direct and comprehensive link of accountability between the actions anticipated in the business plans and the actual accomplishments. The Office will use the same approach in 1998.

Comments of the Board

24. The Board notes the Office's request that internal audit conduct an evaluation of existing overseas offices during 1998, and that a yearly evaluation of the continued viability of overseas offices will be undertaken.

Recommendation 11 (a)

25. The United Nations Office for Project Services should regularly review the extent of repeat recruitment to ensure that it exercises sufficient choice in the selection of individual consultants and consultancy firms.

Measures taken by the Administration

26. Repeat recruitment of consulting firms is monitored by the Procurement Review Advisory Committee. The previously separate administrative and project personnel functions have been consolidated in the Human Resources Management Section of the Finance, Control and Administration Division. The section uses database records for periodic review of the recruitment of experts. In addition, a new Roster Unit was established in the Office of the Director of Operations in July 1997. Concurrent with a comprehensive review of its entire information systems portfolio, the Office has developed system specifications that will, as systems evolve, provide better means of managing recruitments and consultant selections.

Comments of the Board

27. Certain individuals continue to appear regularly on the lists of consultants recruited by project management officers for a variety of projects throughout the Office. Although there may be merit in recruiting a good quality consultant on more than one occasion, supporting files fail to demonstrate clear grounds for repeated recruitment, or the consideration of viable alternatives. The Board believes that the Office needs to take firmer action to improve its performance in this area.

Recommendation 11 (b)

28. The United Nations Office for Project Services should undertake periodic analyses to identify the specialties most in demand and any shortfalls in supply, with a view to registering individuals and firms with the required skills in advance of possible assignments.

Measures taken by the Administration

29. There are still difficulties with this issue, which stem from roster-sharing with UNDP and the United Nations Population Fund. However the Office is identifying those areas of specialization in which there is a need for a greater pool of resources from which to draw. In particular, one of its procurement specialists was assigned to a four-month market intelligence analysis, including an advertising campaign, aimed at identifying potential suppliers of services for the highly specialized Montreal Protocol projects implemented by the Office. A similar analysis is soon to be undertaken in the area of mine action activities.

Comments of the Board

30. The Board notes those developments.

Recommendation 11 (c)

31. The United Nations Office for Project Services should screen and, where appropriate, register on the consultants' roster those candidates whose details are not yet on the roster; ensure that all staff are fully trained in the use of the roster; and investigate the scope for making the roster available to the office in Kuala Lumpur.

Measures taken by the Administration

32. The Office accepts and evaluates the credentials of firms and individual consultants. Pending selection of a new and appropriate technical system for rostering needs, the Office has suspended the addition of newly identified consultants to the RESTRAC résumé database. In the meantime, the Office continues to train staff on the use of the RESTRAC system and to make it available to all its outposts.

Comments of the Board

33. The Board notes the suspension of the RESTRAC database, and is aware of the Office's intention to consider alternative means for identifying suitable consultants. The Board considers that the roster remains a potential source of information, at least until alternative methods are securely embedded into the Office's culture. The quality of information held on a roster is a key influence in persuading staff to use it. During its review of the management of human resources, the Board commented on continuing deficiencies in the evaluation of the credentials of individual consultants. In the Board's view, these deficiencies need to be addressed by the Office.

Recommendation 11 (d)

34. The United Nations Office for Project Services should undertake a review of current market rates for consultancy services, to be used as a benchmark for setting fees, and issue new guidelines to ensure that staff determine fees on a consistent and transparent basis.

Measures taken by the Administration

35. The Office is in the process of finalizing comprehensive revised guidelines for the hiring of individual consultants. They are intended to better address the Office's requirements and will include detailed procedures for the hiring of consultants and the

negotiations of fees. The Office also plans to implement in 1998 monitoring mechanisms that ensure that fees paid are in conformity with market rates.

Comments by the Board

36. The Board notes the Office's intention to review the approach for setting market rates, including the potential delegation of authority to apply rates below an agreed level.

Recommendation 12 (a)

37. The United Nations Office for Project Services should develop a workload assessment and costing system.

Measures taken by the Administration

38. In document DP/1997/27, the Office reported that it expected to complete the task in the second quarter of 1997. The Office's experience is showing that workload and costing assessments for an organization that responds to changing client demand is an ongoing task. Since the Board's 1994–1995 report, the Office has continued to use and update its existing workload assessment system while, at the same time, improving its modalities for apportioning common costs and implemented administrative cost centres. Continued updating and refinement of these procedures will be targeted in the 1998 business plan.

Comments of the Board

39. The Board supports continuing work in this area to ensure an equitable basis for the apportionment of resources and costs to individual projects and functions within the Office.

Recommendation 12 (b)

40. The United Nations Office for Project Services should revise the bases for calculating management service agreement fees to reflect current costs more accurately.

Measures taken by the Administration

41. The Office has established cost centres and improved measures of common cost apportionment. These actions indicate that the Operations Division, which is the primary implementer of management service agreement projects (the Division for Procurement Projects), is recovering its operational costs. As management service agreements now represent a smaller proportion of the Office's portfolio than they had previously, the Office considers that the combination of ongoing monitoring and better cost-apportionment mechanisms are at this time sufficient.

Comments of the Board

42. In its 1998 business planning considerations, the Office recognizes that there is a need to improve mechanisms for assessing costs in the longer term. Senior management is currently discussing finalization of the basis for sharing administrative overheads across operational units. With the new financial system to be introduced during the next 18 months, there will be scope for further improving the analysis and apportionment of costs. The Board urges the Office to continue to monitor management service agreement project out-turn,

and take measures to further refine costing procedures over the next biennium to ensure that there is a sound base for fee calculation.

Recommendation 12 (c)

43. The United Nations Office for Project Services should establish a formal agreement with UNDP that country offices provide the Office with a breakdown of their estimated costs in support of management service agreement activities in the field.

Measures taken by the Administration

44. The Office signed an umbrella agreement with UNDP in April 1997. While there are still some details, related to common cost-sharing, under discussion, the agreement provides a framework and legitimacy for fairly compensating country offices for their costs in support of management service agreements. This is being done on a case-by-case basis, taking into account the unique support requirements of each management service agreement.

Comments of the Board

45. Progress has been made in obtaining more information about the breakdown of charges made by UNDP for central activities, such as the treasury function, although a degree of uncertainty remains. The Board considers that the current agreement should allow a constructive debate to continue on charges to be levied by UNDP for the biennium 1998-1999.

Recommendation 12 (d)

46. The United Nations Office for Project Services should assess and document, as part of the project acceptance process, whether the costs of delivering a project are likely to be met by the charges or fees set by or agreed with the relevant clients.

Measures taken by the Administration

47. The Office is assessing and documenting, on project files, whether the costs of delivering a project are likely to be met by the charges or fees set by or agreed with the relevant clients.

Comments of the Board

48. The Board notes that project management officers are now required to record their estimates of costs with forecast fee income information on project files.

Recommendation 12 (e)

49. The United Nations Office for Project Services should assess the levels of annual surpluses and accumulated unspent resources to determine levels which are reasonable and consistent within its business objectives.

Measures taken by the Administration

50. The Office performed an analysis of appropriate levels of operational reserves and submitted a report on this issue to the Executive Board (DP/1997/26), the recommendations of which were approved in decision 97/21 of 18 September 1997. The assessment of appropriate levels of operational reserves is a regular and recurrent activity undertaken by the Office.

Comments of the Board

51. The Board notes that drawdowns from this operational reserve will be reported to the Executive Board in conjunction with its annual review of the budget of the United Nations Office for Project Services.

Chapter III

Audit opinion

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 and 2 and the supporting notes of the United Nations Office for Project Services for the financial period ended 31 December 1997. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all respects, the financial position as at 31 December 1997 and the results of operations and cash flows for the period then ended in accordance with the Office's stated accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Further, in our opinion, the transactions of the Office that we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long form report on our audit of the Office's financial statements.

(Signed) Vijay Krishna **Shunglu**
Comptroller and Auditor General of India

(Signed) Osei Tutu **Prempeh**
Auditor-General of Ghana

(Signed) Sir John **Bourn**
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

15 July 1998

Chapter IV

Financial statements for the biennium ended 31 December 1997

Statement I

Income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 1997, with comparative figures for the biennium ended 31 December 1995

(United States dollars)

1994-1995			1996-1997
	INCOME		
	Support costs and fees		
26 150 503	UNDP - funded projects		34 662 419
2 262 772	UNOPS as Cooperating/Associated Agency		4 319 268
0	Projects on behalf of other UN Organizations		418 818
3 045 895	United Nations International Drug Control Programme-funded projects		1 173 934
9 603 038	Trust Funds projects		12 493 553
11 793 699	Management Services Agreements (MSAs)		13 598 834
52 855 907	Total support costs and fees	(note 3)	66 666 826
5 729 325	IFAD - Loan administration fees	(note 4)	6 879 002
683 727	Interest income		1 527 319
0	Miscellaneous income	(note 5)	3 209 611
100 000	Programme of Assistance to the Palestinian People - Accounting Services	(note 6)	150 000
59 368 959	***TOTAL INCOME***		78 432 758
	EXPENDITURE		
55 614 692	Administrative expenditures	(schedule 2)	70 254 817
55 614 692	***TOTAL EXPENDITURE***		70 254 817
3 754 267	***NET EXCESS OF INCOME OVER EXPENDITURE***		**8 177 941**
	Savings on prior period obligations		270 395
	RESERVES AND ACCUMULATED UNEXPENDED RESOURCES 01 JANUARY 1996 [a]		12 976 167
	RESERVES AND FUND BALANCES 31 DECEMBER 1997 [a]	(statement II)	**21 424 503**

[a] *Comparative figures not applicable, as the United Nations Office of Project Services became a separate and identifiable entity only on 1 January 1995*

The accompanying notes are an integral part of the financial statements.

Statement II

Assets, liabilities, and reserves and unexpended resources as at 31 December 1997, with comparative figures as at 31 December 1995

(United States dollars)

1995			1997
	ASSETS		
2 474 974	Cash	(note 7)	2 656 767
6 800 000	Investments - long term		17 000 000
0	Investments - short term		555 362
9 274 974	Total Cash and Investments		20 212 129
0	Accrued interest		118 008
306 966	Due from the United Nations International Drug Control Programme	(note 8)	737 606
4 591 657	Accounts receivable and deferred charges	(note 9)	4 154 893
5 170 453	Due from UNDP	(note 10)	12 422 316
10 069 076	Total Receivable and deferred charges		17 432 823
19 344 050	***Total Assets***		**37 644 952**
	LIABILITIES, RESERVES AND UNEXPENDED RESOURCES		
	Liabilities		
716 569	Advances for IFAD - funded projects	(note 11)	2 695 479
5 651 314	Accounts payable	(note 12)	10 003 371
0	Due to other UN Organizations	(note 13)	3 521 599
6 367 883	Total Liabilities		16 220 449
	Reserves and Accumulated Unexpended Resources		
6 800 000	Operational reserve	(note 14)	17 555 362
6 176 167	Accumulated unexpended resources		3 869 141
12 976 167	Total Reserves and Accumulated Unexpended Resources		21 424 503
19 344 050	***Total Liabilities, Reserves and Accumulated Unexpended Resources***		**37 644 952**

The accompanying notes are an integral part of the financial statements

Statement III

Statement of cash flows for the biennium ended 31 December 1997

(United States dollars)

NET CASH FLOWS FROM OPERATING ACTIVITIES		
Net excess of income over expenditure	8 177 941	
Savings on prior period obligations	270 395	
Interest income disclosed under " Investing Activities" below	(1 527 319)	
Decrease in accounts receivable	436 764	
Increase in accounts payable	4 352 057	
Net cash inflow from investing activities		11 709 838
NET CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES		
Interest income	1 527 319	
Increase in accrued interest	(118 008)	
Increase in dué from UNDCP	(430 640)	
Increase in due from UNDP	(7 251 863)	
Increase in due to IFAD	1 978 910	
Increase in due to other UN organizations	3 521 599	
Net cash outflows from financing activities		(772 683)
NET INCREASE IN CASH AND CASH EQUIVALENTS		10 937 155
CASH AND INVESTMENTS AS AT 01 JANUARY 1996		9 274 974
CASH AND INVESTMENTS AS AT 31 DECEMBER 1997		**20 212 129**

The accompanying notes are an integral part of the financial statements

Schedule 1

Project expenditure and support costs and fees for the biennium ended 31 December 1997, with comparative figures for the biennium ended 31 December 1995

(United States dollars)

1994-1995				1996		1997			1996-1997
Project expenditure	Support costs and fees	Project expenditure and support costs and fees		Project expenditure	Support costs and fees	Disbursement	Unliquidated obligations	Total	Support costs and fees	Total project expenditure and support costs and fees
271 471 668	26 150 503	297 622 171	*UNDP Funded Projects*	162 439 404	16 489 386	147 139 128	39 060 689	186 199 817	18 173 033	383 301 640
			UNOPS as Cooperating/Associated Agency							
27 108 805	1 807 659	28 916 464	UNDP funded projects	16 345 612	1 575 912	18 426 974	3 727 954	22 154 928	2 224 885	42 301 137
6 057 826	455 113	6 512 939	Trust Fund projects	3 631 169	306 222	1 737 740	914 759	2 652 499	212 449	6 802 339
33 166 631	2 262 772	35 429 403	Sub-total	19 976 781	1 882 134	20 164 714	4 642 713	24 807 427	2 437 134	49 103 476
0	0	0	*Projects on behalf of other UN Organizations*	851 367	70 052	3 711 067	409 977	4 121 044	348 766	5 391 229
40 781 049	3 045 895	43 826 944	*United Nations International Drug Control Programme Funded Projects (UNDCP)*	6 915 275	672 661	5 411 481	1 301 082	6 712 563	501 073	16 801 772
			Trust Fund Projects							
30 225 501	2 111 846	32 337 347	Montreal Protocol	23 329 731	1 868 378	11 386 342	15 461 657	26 827 999	2 146 240	54 170 348
43 255 326	3 005 947	46 261 273	Global Environmental Facility	20 906 250	1 416 712	10 975 090	5 116 832	16 091 922	1 083 050	39 497 934
38 769 474	2 044 994	40 814 468	UN Capital Development Fund	17 369 907	939 580	4 919 887	3 878 400	8 798 287	503 160	27 610 934
15 505 312	807 182	17 312 494	Humanitarian and Rehabilitation Assistance for Cambodia	11 658 164	662 049	11 095 857	1 281 300	12 377 157	14 296	24 711 666
22 122 887	1 633 069	23 755 956	Other Trust Funds	15 117 671	1 219 981	17 452 195	3 584 719	21 016 914	2 842 127	39 996 673
150 878 500	9 603 038	160 481 538	Sub-total	88 381 723	6 104 680	55 809 371	29 302 908	85 112 279	6 388 873	185 987 555
			Management Services Agreements (MSAs)							
136 689 979	5 017 213	141 707 192	Japan	77 149 810	2 437 602	45 242 787	37 710 400	82 953 187	2 843 734	165 384 333
69 211 449	4 246 609	73 458 058	World Bank Agreements	19 852 615	1 563 816	14 913 092	7 237 465	22 150 557	1 371 677	44 938 767
30 326 025	1 088 818	31 414 843	Inter-American Development Bank	9 780 043	823 739	7 004 100	4 538 610	11 542 710	186 984	22 133 476
36 186 156	1 441 059	37 627 215	Other MSAs	43 409 695	1 801 557	9 092 684	30 438 172	39 530 856	2 769 623	87 511 731
272 413 609	11 793 699	284 207 308	Sub-total	150 192 163	6 426 816	76 252 663	79 924 647	156 177 310	7 172 018	319 968 307
768 711 457	52 855 907	821 567 364	*Project expenditure and support costs and fees*	430 756 713	31 645 929	308 488 424	154 642 016	463 130 440	35 020 897	960 553 979

Schedule 2

Administrative budget and expenditure for the biennium ended 31 December 1997, with comparative figures for the biennium ended 31 December 1995

(United States dollars)

1994 - 1995		1996 - 1997 (a)	1996	1997			1996 - 1997	1996 - 1997
Total expenditure	Description	Revised budget	Total expenditure	Disbursements	Unliquidated obligations	Total	Total expenditure	Unencumbered balance
	UNOPS administrative budget and expenditure							
26 618 613	*Salaries and wages*	29 542 000	13 944 601	15 948 078	139 473	16 087 551	30 032 152	(490 152)
11 704 586	*Common staff costs*	13 029 000	5 656 984	5 996 995	71 631	6 068 626	11 725 610	1 303 390
1 069 705	*Official travel*	1 324 000	574 390	843 494	152 766	996 260	1 570 650	(246 650)
1 434 708	*Contractual services*	3 624 000	657 951	728 011	248 287	976 298	1 634 249	1 989 751
6 871 517	*General operating expenses*	7 299 000	3 043 810	3 593 071	311 982	3 905 053	6 948 863	350 137
419 345	*Supplies*	688 000	388 110	610 902	48 445	659 347	1 047 457	(359 457)
808 786	*Furniture and equipment*	2 981 000	1 929 921	1 408 664	373 721	1 782 385	3 712 306	(731 306)
0	*Cost of services provided by UNDP country offices and other UN agencies*	3 842 000	1 842 433	1 994 424	8 234	2 002 658	3 845 091	(3 091)
6 687 432	*Cost of central services*	8 345 000	4 144 600	2 662 163	427 400	3 089 563	7 234 163	1 110 837
55 614 692	*TOTAL*	70 674 000	32 182 800	33 785 802	1 781 939	35 567 741	67 750 541	2 923 459
0	*Host Government contributions and expenditure*	3 118 710	1 460 264	1 034 205	9 807	1 044 012	2 504 276	614 434
55 614 692 (statement I)	*GRAND TOTAL*	73 792 710	33 643 064	34 820 007	1 791 746	36 611 753	70 254 817 (statement I)	3 537 893

(a) As per DP/1997/29

Notes to the financial statements

Note 1. United Nations Office for Project Services' objective

The objective of the United Nations Office for Project Services is to provide high-quality, timely, and cost-effective development services for the successful implementation of projects undertaken by United Nations Member States.

The Office offers the international cooperation community a broad range of services which include:

(a) Comprehensive project management, including contracting for technical expertise and backstopping;

(b) Implementation of components of projects under execution by other organizations of the United Nations system or by national institutions;

(c) Project supervision and loan administration on behalf of international financial institutions; and

(d) Management services for multilateral, bilateral, and beneficiary-financed projects.

The Office serves its clients while upholding the impartiality and fairness embodied in the Charter of the United Nations.

Note 2. Summary of significant accounting policies

The financial statements of the Office, in all material aspects, are prepared in accordance with the United Nations System Accounting Standards.

As required by its Financial Regulations, the Office maintains the following accounts:

(a) The United Nations Office for Project Services account, to which all of the income to the Office derived from its services is credited and against which all its operational costs are charged;

(b) Separate special accounts, as required by the Office's activities, for identification, administration, and management of resources entrusted to the charge of the Office by a funding source. These accounts are referred to hereafter as "special accounts".

The financial statements reflect the application of the following significant accounting policies:

(a) Financial policies applicable to the United Nations Office for Project Services account

(i) Income

All income is accounted for on an accrual basis.

(ii) Expenditure

All expenditure is accounted for on an accrual basis, except for that relating to staff entitlements, which are accounted for on the basis of cash disbursements only. Expenditures chargeable to the United Nations Office for Project Services account are related to the Office's administrative budget, as approved by the Executive Board, and are incurred

provided sufficient amounts are available in the Office's income so that the self-financing principle is maintained.

(b) Financial policies applicable to the "special accounts"

Project expenditure is accounted for on an accrual basis and is incurred following authorization of the funding source in the form of "project budgets". The expenditure, plus the support costs and fees charged by the Office, is reported to the funding sources so that they can incorporate such expenditure in their records and financial statements. Project expenditures include unliquidated obligations raised according to the following criteria:

(i) *Experts and other project personnel*: Costs relating to the period of contractual service falling within the current year;

(ii) *Travel on official business*: Costs of travel taking place in the current period and travel which commences before the end of the current year but extends into the next year;

(iii) *Subcontracts*: Payments falling due in the current year according to the terms of the contract or payment schedule;

(iv) *Fellowships*: Cost of the fellowship from the anticipated date of commencement of study or start of the current year to completion of study or end of the current year, whichever is earlier;

(v) *Group training*: Full cost of any training activity held in the current year or beginning in the current year and ending in the next year;

(vi) *Equipment*: Full cost of contractual agreement or firm order placed with the supplier prior to the end of the current year up to the amount provided in the current year's budget;

(vii) *Miscellaneous*: Cost of events occurred (e.g. hospitality and reports) and other ad hoc items.

Certain flexibility provisions may be applied to expenditure incurred under UNDP-funded projects. In any given year, expenditure may exceed an approved project budget for that year by US$ 20,000 or 4 per cent of the year's budget, whichever is greater, provided overall over-expenditures incurred on the programme for that year do not exceed 2 per cent of the total allocated by UNDP to the Office for the year.

(c) Financial policies applicable to all accounts

(i) Exchange rates

For the purposes of accounting for assets, liabilities and the maintenance of other financial records, other currencies are translated into United States dollars at the United Nations operational rate of exchange in effect on the date of the report or transaction.

For the Japanese Procurement Programme, expenditure incurred in other currencies is fixed at the United Nations operational rate of exchange in effect at the date of the establishment of the related obligation. This procedure was agreed upon with the UNDP Treasury based on the ability of UNDP to enter into hedging arrangements in order to protect against significant fluctuations in exchange rates that might occur between the date of obligation and the date of payment. Any difference between the amount recorded when the purchase order was issued and the payment of such obligation is transferred to UNDP as gains or losses on exchange. These gains or losses are effectively offset by opposite gains or losses booked as a result of having held the currency in UNDP accounts over the period.

For the biennium ended 31 December 1997, the total of such differences amounted to the equivalent of US$ 1,920,926.

(ii) Capital expenditures

The full cost of non-expendable equipment is charged to the project accounts or the Office's administrative budget as appropriate in the year in which it is purchased. An inventory is maintained of all non-expendable equipment. This is defined as items of equipment valued at $500 or more per unit with a serviceable life of at least five years, and items of equipment included in any special list for which formal inventory records are maintained. As at 31 December 1977, the inventory of non-expendable equipment purchased with funds from the Office's administrative budget had a value of US$ 3,912,836.

Note 3. Support costs and management service agreement fees

Most of the Office's income derives from project implementation services. Depending on the funding source of the project, the Office's services are compensated with either support costs or management fees.

(a) Support costs

Statement I shows that, for the biennium ended 31 December 1997, the Office earned a total of $US 38,981,687 for implementing UNDP-funded projects (US$ 34,662,419 as executing agency and US$ 4,319,268 as cooperating or associated agency). Pursuant to the Board's decision 96/31, from 1 January 1997, the Office's support costs earnings in the implementation of UNDP-funded activities have been calculated at a rate not exceeding 10 per cent of the total project delivery, while the 1996 support costs earnings were based on the seven cluster administrative and operational services reimbursement rates as authorized in the then Council decision 91/32.

Statement I also shows that, for the biennium ended 31 December 1997, the Office earned US$ 1,173,934 and US$ 12,493,553 for implementing projects funded by the United Nations International Drug Control Programme and UNDP-administered trust funds, respectively. Support costs earnings for those projects are calculated using rates approved by the Executive Board or by applying rates that are agreed upon with the funding source.

The item "Projects on behalf of other United Nations organizations" in the amount of US$ 418,818 represents support costs earnings from the Office's United Nations system clients, including the Joint and Co-sponsored United Nations Programme on Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome, the United Nations Research Institute for Social Development and the Office of the United Nations High Commissioner for Refugees (see also note 13).

(b) Management fees

The United Nations Office for Project Services earns management fees for implementing projects under management service agreements, which are agreed upon with its clients and which vary according to the complexity of the services provided. Statement I shows that, for the biennium ended 31 December 1997, US$ 13,598,834 was earned from this category. Included in this amount are fees that the Office also earns from procurement services it provides to projects that are implemented by Governments and financed with International Fund for Agricultural Development (IFAD) loans and the total earnings during the biennium ended 31 December 1997 amounted to US$ 189,451. From 1997 onwards,

expenditures incurred for procurement services on behalf of the Government are included in the Office's delivery and reflected in schedule 1.

Note 4. Loan administration and project supervision

The Office earns fees from services it provides to IFAD for loan administration and project supervision. Statement I shows that, for the biennium ended 31 December 1997, the Office earned a total of US$ 6,879,002 from those activities.

Note 5. Miscellaneous income and expenditure

For the biennium ended 31 December 1997, the amount of US$ 3,209,611, shown in statement I, represents the following:

Rebate of commissions from the Office's travel agent	$384 057
Income from projects INT/95/801 and INT/97/802	126 200
Expenditure of prior period	(40 528)
Resources provided by the Danish and Swiss Governments to defray costs of establishing offices	2 504 276
Miscellaneous expenditure on financially completed project and reduction of support costs	(4 493)
Write-back of a specific reserve for cost of staff terminations no longer required	252 407
Write-off (goodwill gesture relating to the supply of computers deemed to be obsolete)	(12 308)
Total	**$3 209 611**

Note 6. Income from accounting services to the Programme of Assistance to the Palestinian People

The United Nations Office for Project Services provides accounting and financial reporting services to the Programme of Assistance to the Palestinian People. Statement I shows that the Office earned US$ 150,000 for providing those services for the biennium ended 31 December 1997. Project expenditures and income for the Programme of Assistance to the Palestinian People, reported by the Office to the Programme (and transferred to UNDP) for the biennium ended 31 December 1997, amounted to $75,636,286 and $4,950,122, respectively.

Note 7. Cash

The amount of US$ 2,656,767 shown in statement II represents balances of project imprest accounts advanced by UNDP and maintained by the Office at project sites. With the exception of a petty cash balance of US$ 1,000, the Office does not handle any other cash directly. Funds received from all sources for Office-executed projects are paid to UNDP

and the Office makes disbursements through the UNDP headquarters Treasury Section or UNDP country offices. The breakdown of the above-mentioned amount consists of:

Convertible – US$	$2 067 539
Convertible – non US$	585 563
Non-convertible – currency	3 665
Total	**$2 656 767**

Note 8. Due from the United Nations International Drug Control Programme

The United Nations Office for Project Services implements United Nations International Drug Control Programme projects at a support cost rate of 7.5 per cent and the funding for the project is channelled through UNDP. The amount of $737,606 represents the balance due from the United Nations International Drug Control Programme for the biennium ended 31 December 1997, as summarized below:

Balance due from the United Nations International Drug Control Programme at 1 January 1996	($306 966)
Funds received during the current period	16 371 132
Subtotal	**$16 064 166**
Less: expenditures reported to the United Nations International Drug Control Programme for the current period	(16 801 772)
Balance due from the United Nations International Drug Control Programme	**($737 606)**

The reported 1997 expenditures includes unliquidated obligations of US$ 1,301,082.

Note 9. Accounts receivable and deferred charges

The amount of US$ 4,154,893 as shown in statement II consists of:

Unprocessed Inter-office vouchers	$1 553 086
Charges awaiting reimbursement from UNDP and other United Nations organizations	1 489 007
Miscellaneous accounts receivable and other deferred charges	1 112 800
Total	**$4 154 893**

Note 10. Due from UNDP

The amount of US$ 12,422,316 as shown in statement II represents the inter-fund balance between UNDP and the Office. The amount is due from UNDP mainly because, not having a separate Treasury function, the Office relies on UNDP central services for the custody of its funds and disbursement of its payments.

Note 11. Advances for International Fund for Agricultural Development projects

The amount of US$ 2,695,479 shown in statement II represents balances due to Government for funds received in advance for projects funded by IFAD loans and to IFAD itself for funds received related to loan administration and project supervision.

The operating fund accounts maintained for IFAD activities are summarized below:

	Loan administration and project supervision	*Procurement*	*Total*
Opening balance	$115 700	(832 269)	(716 569)
Add: funds received	(9 408 730)	(3 513 667)	(12 922 397)
Less: expenditures	1 842 952	2 032 082	3 875 034
Less: fees and support costs	6 879 002	189 451	7 068 453
Closing balance(s) due to IFAD/Governments	**($571 076)**	**($2 124 403)**	**($2 695 479)**

Note 12. Accounts payable

The amount of US$ 10,003,371, as shown in statement II, consists of the following:

Unliquidated obligations – United Nations International Drug Control Programme	$1 301 082
Unliquidated obligations – other United Nations agencies	409 977
Unliquidated obligations – IFAD projects	916 650
Unliquidated obligations – UNOPS account	1 781 939
Miscellaneous accounts payable	1 481 533
1997 Accruals on cost-sharing apportionment	343 000
Management service agreement Inter-office voucher charges awaiting clearance	3 769 190
Total	**10 003 371**

Note 13. Due to other United Nations organizations

The United Nations Office for Project Services began implementing projects for other United Nations organizations in 1996 (14 projects for five agencies). In 1997, there were

32 projects for 12 agencies. The project agreements specify an advance payment and subsequent progress payments; the balance of $3,521,599 represents the unencumbered fund balances available for the biennium ended 31 December 1997, in excess of project expenditures and support costs.

Note 14. Operational reserve

The Executive Board at its third regular session in 1997 decided "... to establish the level of the operational reserve of the United Nations Office for Project Services at 4 per cent of the combined expenditure on administrative and project budgets of the previous year, and to transfer unspent income to the reserve account until such level is reached". The combined 1996 administrative and project expenditure amounted to US$ 464,399,777; 4 per cent of this figure is US$ 18,575,911. The 1996 accumulated unspent income of US$ 10,755,362 was transferred to the operational reserve for a new total of US$ 17,555,362. US$ 17,000,000 has been invested in bank bonds and the remainder in time deposit.

Note 15. Host Government contributions and expenses

Upon the establishment of United Nations Office for Project Services offices in Copenhagen and Geneva, the following contributions were provided by the Governments of Denmark and Switzerland to defray the costs of the Office's relocation, office furniture and equipment, communication and computer systems.

In cash	*Denmark*	*Switzerland*	*Total*
		(United States dollars)	
Contribution	2 625 027	493 683	3 118 710
Less: expenditure	2 192 783	311 493	2 504 276
Ending balance	**432 244**	**182 190**	**614 434**

Only that portion of contributions matched by administrative expenditure within the biennium is recorded as miscellaneous income. Any unexpended balance of contributions are disclosed in accounts payable.

In kind

The estimates for office accommodation, utilities and security facilities provided by the Governments of Denmark and Switzerland, at the prevailing market value, amounted to US$ 504,770 and US$ 141,035, respectively. In addition, accommodation for the Abidjan office has been provided by the Government of Côte d'Ivoire since September 1997. The estimated value of the facility will be disclosed when it becomes available.

Note 16. Reimbursement to UNDP country offices and other United Nations agencies

Prior to 1996, reimbursements to UNDP country offices and other United Nations agencies for costs incurred in assisting or participating in the implementation of United

Nations Office for Project Services projects were recorded as a reduction to the Office's support costs income. Commencing in 1996, the reimbursements have been recorded as part of the Office's administrative expenditures. For the current biennium, the total reimbursement amounted to $3,845,091, of which $3,138,437 pertained to country offices and $706,654 to other United Nations agencies.

Note 17. Cost of central support services

Central support services costs include United Nations recharges and auditing under lump-sum arrangements, as well as reimbursements to UNDP for services provided to the Office in the areas of finance (mainly Treasury and General Ledger processing), personnel (mainly administration of United Nations Office for Project Services staff whose costs are funded by the "United Nations Office for Project Services Account"), and servicing to the Office's Governing bodies, such as the Executive Board and the Management Coordination Committee.

Note 18. Contingent financial liabilities

Post-retirement benefit and commutation of annual leave are elements of common staff costs. Under normal circumstances, those charges are recorded against the Office's accounts when payments are effected. Contingency provisions have been made under the Office's reserves to cover exceptional separation costs. Process has been initiated, in collaboration with UNDP, to review the issue of contingent liabilities for after-service health insurance to estimate the magnitude and to determine the most appropriate mechanism for funding the contingency.

Note 19. United Nations Joint Staff Pension Fund

The United Nations Office for Project Services is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF) which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the organization to UNJSPF consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments which might become payable pursuant to article 26 of the Regulations of the Fund.

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